

THE BIG PICTURE JUST GOT BIGGER

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IMAX®



*T-REX: Back to the
Cretaceous* will feature
eight-story high 3D
digital dinosaurs —
larger than the originals!
Coming Fall 1998.





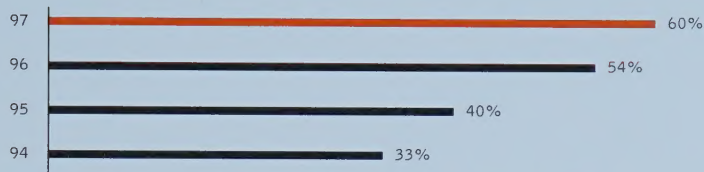
“Totally amazing”

LUCAS MADIGAN at Edwards IMAX 3D Theatre, Irvine Spectrum, Irvine, California

IMAX® Brand Awareness in U.S.

Our research* shows that recognition of the IMAX brand name in the United States has increased 50% since 1995. The IMAX brand is recognized around the world as a symbol of high-quality, family entertainment.

*ANGUS REID GROUP POLL 08/1997



MESSAGE TO SHAREHOLDERS 1997 was a breakthrough year for Imax Corporation. The Company experienced record financial results, increased brand name recognition and a doubling of our previous record for new theatre signings with orders for 60 new IMAX theatres. In 1997, the Company introduced the IMAX 3D SR theatre system which allowed smaller markets to experience the magic of IMAX 3D for the first time and was a catalyst for our tremendous growth in new theatre contract signings. During the year, we also premiered our 3D animation technologies, demonstrating the potential of 3D animation in IMAX theatres.

The goal behind the launch of the IMAX 3D SR theatre system was to expand the number of potential markets for IMAX theatres around the world. To meet that goal, we aimed to reduce the capital costs of building an IMAX theatre so that we could reduce the attendance needed to generate a return on the investment for the theatre owner. We were able to do just that with the IMAX 3D SR system which was designed to be built as part of a multiplex and costs approximately half as much as building a stand-alone IMAX

There is a huge commercial market for The IMAX Experience™ and we have just begun to scratch the surface. Of our 60 theatre signings in 1997, 90% were for commercial systems and 90% for 3D

systems. This growth is being driven by the exhibition industry's recognition of the drawing power of IMAX theatres and our ability to deliver systems which can easily be accommodated

within a multiplex. Our new compact, cost-efficient IMAX 3D SR system was overwhelmingly received by the exhibition industry in 1997. Imax signed contracts with six major exhibitors for 36 systems

in 1997, most of which were for IMAX 3D SR systems. Just after year end, we signed an agreement with Famous Players for 10 more theatres.

Commercial Theatre Growth



Value of Permanent Theatres Signed

The value of our theatre contract signings has grown dramatically —driven by the demand for commercial IMAX theatres and IMAX 3D theatres.



theatre, including the cost of the equipment. The response to IMAX 3D SR theatres was overwhelming. In the nine months after its launch in March, 1997, we signed contracts for 32 IMAX 3D SR systems. The new system helped Imax sign contracts with six commercial exhibitors in North America in 1997, including Cinemark USA, Edwards Theatres Circuit, Empire Theatres, Krikorian Premiere Theatres, Marcus Theatre Corporation and Regal Cinemas. In 1998, we are going to set our sights on the overseas markets with IMAX 3D SR systems and try to repeat our North American successes in Europe and Asia.

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As our theatre network grows and our company matures, we have increased our focus on, and commitment to, the success of the IMAX theatres. Affiliate Relations gives our theatres a direct line of communication to the Company and allows us to help each theatre maximize its results by providing them with the benefit of our 30-year history and by making the latest marketing tools available to them. In 1997, we bolstered our Affiliate Relations program which is among our most important initiatives.

As a result of the launch of the IMAX 3D SR system, the Company signed contracts for a record 60 IMAX theatre systems in 1997, more than double the previous record of 29 theatre systems signed in 1996. That helped to increase the

Company's backlog by a record \$44 million to \$175 million at year end, a 33% increase over the previous year. In addition, Imax signed a 10-theatre agreement with Famous Players Inc. early in the first quarter of 1998 which is not included in the 1997 totals.

The IMAX 3D Experience continues to be warmly received by audiences and theatre customers. In 1997, 51 of our 60 new theatre signings were for IMAX 3D theatre systems. At the end of 1997, there were 35 IMAX 3D systems in operation and another 61 in backlog. This is up dramatically from only 14 IMAX 3D theatres in operation at the end of 1995. By the end of 1998 there will be approximately 60 IMAX 3D theatres in operation.

Financially, 1997 was another record year. Total revenues rose 22% in 1997 to \$158 million, while diluted earnings per share increased 36% to \$0.68. The continued expansion of our film library and the dynamic growth of our theatre network is driving strong increases in Imax's recurring revenues. Recurring revenues from royalties, maintenance fees and film distribution and post-production fees rose 38%

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Number of Theatre Signings

The number of IMAX theatre signings more than doubled in 1997 as IMAX theatres moved into smaller markets of the world.





BFI LONDON IMAX CINEMA

International Expansion

The potential for global growth is astounding. Today 70% of IMAX theatres are in North America and Japan which represent only 10% of the world's population. In recent years,

Imax has increased its efforts in Europe, Asia, and South America and we have been successful in signing multi-theatre contracts with local exhibitors.

There are 159 IMAX theatres in 22 countries now and there is still tremendous opportunity for further expansion. In the last two years the Company has signed contracts in several new

international markets including Brazil, Norway, Italy, Belgium, New Zealand and Malaysia.

Imax was founded on innovation and it remains a key driver of the Company's success today. Two more outstanding examples of Imax's leadership in innovation were unveiled late last year. In November, Imax unveiled a proprietary 3D animation technology which

allows artists to create hand-drawn 3D animation for IMAX theatres. The technology debuted in November with *Paint Misbehavin'*, a two-minute animated 3D cartoon that received an overwhelming reaction from audiences.

In December, *Race for Atlantis*, the world's first IMAX 3D motion simulator ride, premiered at Caesars Palace in Las Vegas. *Race for Atlantis* takes riders on an exhilarating, visually stunning race to save the legendary kingdom. The multi-sensory, immersive

realism of the ride is made possible through the marriage of a giant IMAX *Dome* screen, state-of-the-art 3D computer animation, 3D sound through the IMAX Personal Sound Environment and innovative motion simulation technology.

Innovations

RACE FOR ATLANTIS CAESARS PALACE LAS VEGAS



Sales Backlog

As the pace of new theatre signings has gained momentum, so has our sales backlog. Sales backlog provides visibility of Imax's revenues in the years ahead.



in 1997 as the growth in the theatre network drove increases in all four categories. The Company continued to deliver the kind of performance that its customers, partners and investors expect. Imax has never been stronger and we are carrying real momentum into 1998.

With a record number of new theatre openings as well as some highly-anticipated film releases, the reach and power of the IMAX brand name will show exciting growth in 1998. This year there will be more people in more IMAX theatres in more places than ever before – and they will be watching more new films that promise even greater audience impact.

At the end of 1997, more than 20 film projects were in various stages of production, pre-production and development by Imax and others, the most ambitious program in history. The list includes films that we believe will push the boundaries of the 15/70 format and establish several notable firsts.

At the top of the list is MacGillivray Freeman Films' production of *Everest*, which opened on March 6, 1998, supported by the largest publicity and promotional campaign in the history of our industry. In its first 12 months, *Everest* will

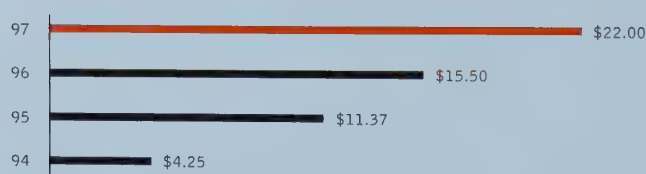
play in two-thirds of the IMAX theatre network or nearly 100 screens and could generate more than \$50 million in box office revenues. The film has brought more people to IMAX theatres for the first time than any other film in recent history and is selling out at theatres around the world. In just its first few weeks in limited release, the film has already reached as high as 14th on the North American weekly box office charts and has been by far the highest grossing film in North America on a per screen basis.

In the Fall of 1998, Imax will be releasing its production of *T-REX: Back to the Cretaceous*, featuring eight-story digital dinosaurs in 3D. *T-REX* will have more special effects than any other film in the medium's history and on the giant IMAX screen the dinosaurs will be larger than the original dinosaurs were! More than a dozen other films are planned by Imax and other producers for release by the end of 1999, including the first 3D animated film.

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We believe that 3D animation holds great potential for Imax and have developed two ways to deliver it to theatres. First, Imax invented an exciting new 3D animation

Share Price



Imax's share price has grown at a compound annual rate of 73% since 1994 as the Company's financial results and theatre signings have grown.



MISSION TO MIR

Commitment to Education

Early in 1998, Imax created Education Services, a new initiative that focuses more attention on the educational needs of our audiences. The relationship between Imax and educators has always been close — a win-win proposition for both parties. For Imax, the attendance of student

groups during the day has meant average utilization rates of 40% to 50%, compared to the 10% to 15% that is more the norm for conventional theatres. For schools, an IMAX theatre outing presents the opportunity

for a truly memorable learning experience. In 1997, two new large-format films — *Mission To Mir*, an intimate visit with American and Russian astronauts on the Russian space station orbiting 200 miles above Earth, and *The Hidden Dimension*, an Alice in

Wonderland-like adventure into the invisible world around us — were supported with study guides and supplementary materials which helped drive daytime attendance at IMAX theatres around the world.



"IMAX theatres
give an added
value to our
multiplexes"

KEN HIGGINS, Vice President of Cinemark

technology called Stereo Animation Drawing Device, or SANDDE™. The SANDDE technology allows animators to draw and colour 3D animated images. The ground-breaking technology is the culmination of an eight-year research and development effort. The first-ever animated short produced with the technology played in front of *The IMAX Nutcracker* this December and was overwhelmingly received by audiences and elicited comments like “astounding” and “inventive” from the media. A number of projects using SANDDE technology are in development for 1999.

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The second method of creating 3D animation is by converting computer generated animation, such as Disney and Pixar’s *Toy Story*, into IMAX 3D. We have performed many film tests to prove that this technology works and are working on a film project which we hope will bring the first computer generated 3D animated film to IMAX theatres in 1999.

All of our efforts – theatre openings, film development, new technologies – are devoted to strengthening the power and reach of the IMAX brand name. As our theatre network expands, the IMAX brand name grows, allowing us to

IMAX 3D ANIMATED FILM

In November 1997, Imax unveiled the latest addition to the Company's stable of innovative film technologies — IMAX 3D animation. SANDDE™ (Stereo Animation Drawing Device) allows animators to bring their hand-drawn characters to life in 3D on the giant IMAX screen.



T-REX: BACK TO THE CRETACEOUS

Scheduled for release in Fall 1998, *T-REX: Back to the Cretaceous* features eight-story high 3D digital dinosaurs. The film, directed by Brett Leonard (*Lawnmower Man*, *Virtuosity*), will have more special effects than any other film in the medium's history.



AFRICA'S ELEPHANT KINGDOM

Released in May 1998 and distributed by Imax, this is the first large-format film from Discovery Channel Pictures. The film reveals the complexity of elephant life and the intelligence of these amazing animals.

New Film Releases

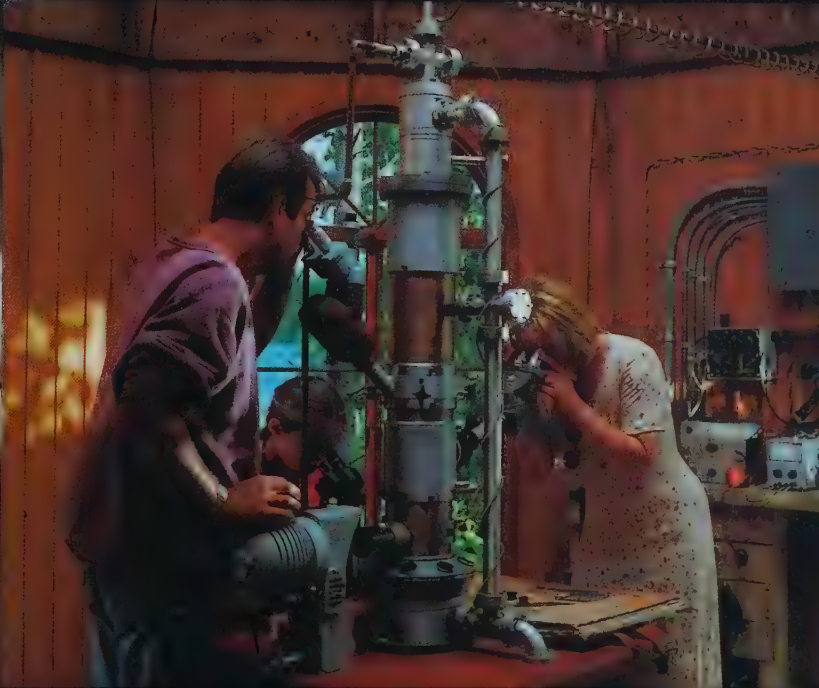
EVEREST

This ground-breaking film from MacGillivray Freeman Films opened to unprecedented publicity and promotion and the largest roll out in Imax's history — more than 100 theatres within the first year of release. *Everest* was backed by the largest promotional campaign in large-format history including a national multiple city book launch, a sound track CD, and a travelling, educational exhibit.



IMAX NUTCRACKER

With a cast of 150 performers, 150 sumptuous costumes and nine complex sets, *The IMAX Nutcracker* was the Company's most elaborate production ever. The film's performance in 1997 has positioned it as a perennial holiday favorite for the IMAX theatre network.



THE HIDDEN DIMENSION

Released in Spring 1997, *The Hidden Dimension* received excellent reviews. The 3D technology also recorded a few firsts including the first high-resolution, full colour Scanning Electron Microscope images captured in the 15/70 format.

produce even better films. These, in turn, attract even larger audiences, and our growth momentum increases. We made great progress in increasing our momentum in 1997 and expect to do even better in 1998, with continuing IMAX 3D SR signings in secondary markets and some of the best films ever to hit IMAX theatres including *Everest* and *T-REX*.

The best testament to our success remains the IMAX theatre experience. We urge you to join the more than 65 million people who will visit an IMAX theatre in 1998. The special power of The IMAX Experience is made possible through the skills and dedication of our employees around the world. We thank them, as well as our theatre owners, business partners and you, our shareholders, for making Imax's success possible.

February, 1998



BRADLEY J. WECHSLER
*Chairman and
Co-Chief Executive Officer*



RICHARD L. GELFOND
*Vice Chairman and
Co-Chief Executive Officer*



BRADLEY J. WECHSLER

CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER

Mr. Wechsler has been Chairman of Imax since he and Mr. Gelfond led its acquisition in March, 1994 and has been Co-Chief Executive Officer since May, 1996. Mr. Wechsler's background is in the entertainment industry with stints at Home Box Office, Silver Screen Partners and Columbia Pictures. In addition, Mr. Wechsler has sat on the boards of Metro-Goldwyn Mayer and Great American Communications Company.



RICHARD L. GELFOND

VICE CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER

Mr. Gelfond has been Vice Chairman of Imax since he and Mr. Wechsler led its acquisition in March, 1994 and has been Co-Chief Executive Officer since May, 1996. Mr. Gelfond has started and managed several companies and has significant experience in the financial, merchant banking and legal fields. In addition, Mr. Gelfond serves on the board of various corporate and philanthropic entities.

Imax 1997 Financial

Performance



MANAGEMENT'S REPORT TO SHAREHOLDERS

Management is responsible for the preparation, integrity, presentation and consistency of financial information contained in this Annual Report. The financial statements and accompanying notes, prepared in accordance with United States generally accepted accounting principles, are considered by management to present fairly the Company's consolidated financial position, its results of operations and changes to its financial position. Management maintains the necessary system of internal controls to provide assurance that transactions are authorized, assets are safeguarded and records are properly maintained.

The Audit Committee meets regularly with the Company's management as well as its external auditors to review matters relating to the quality of financial reporting and internal accounting control and the nature, extent and results of the audit effort. In addition, this Committee is responsible for reviewing consolidated financial statements and reporting thereon to the Board of Directors.

Independent auditors appointed by the shareholders of the Company examine the consolidated financial statements in accordance with generally accepted auditing standards. Their report on the audited consolidated financial position and results of operations of the Company appears on page 28. The external auditors have free and independent access to the Audit Committee and meet with the Committee and with management to consider matters relating to financial presentation, internal controls and audit procedure.



BRADLEY J. WECHSLER
*Chairman and
Co-Chief Executive Officer*



RICHARD L. GELFOND
*Vice Chairman and
Co-Chief Executive Officer*



JOHN M. DAVISON
*Executive Vice President, Operations and
Chief Financial Officer*

FIVE YEAR REVIEW

(IN THOUSANDS OF U.S. DOLLARS EXCEPT PER SHARE AND SYSTEMS DATA)

	1997	1996	1995	1994 PRO FORMA ⁽¹⁾	1993 PREDECESSOR IMAX ⁽²⁾
OPERATING STATEMENT DATA:					
REVENUE					
Systems	\$ 97,539	\$ 85,972	\$ 51,968	\$ 37,507	\$ 37,653
Films	39,683	28,367	28,835	30,885	29,454
Other	21,237	15,499	7,694	6,617	5,591
TOTAL REVENUE	158,459	129,838	88,497	75,009	72,698
Costs and expenses ⁽³⁾	73,806	58,257	44,348	56,118	42,871
GROSS MARGIN	84,653	71,581	44,149	18,891	29,827
Selling, general & administrative expenses ⁽⁴⁾	32,115	29,495	25,925	21,972	14,503
Research & development ⁽⁵⁾	2,129	2,493	2,808	4,563	2,262
Amortization of intangibles	2,701	2,708	2,541	2,603	17
EARNINGS (LOSS) FROM OPERATIONS	47,708	36,885	12,875	(10,247)	13,045
Interest income	5,604	5,797	3,377	1,794	173
Interest expense	(13,402)	(11,765)	(7,337)	(7,400)	(1,633)
Foreign exchange gain (loss)	(623)	(337)	193	(538)	72
EARNINGS (LOSS) BEFORE TAXES AND MINORITY INTEREST	39,287	30,580	9,108	(16,391)	11,657
(Provision for) recovery of taxes	(17,265)	(13,579)	(5,458)	4,833	(5,223)
EARNINGS (LOSS) BEFORE MINORITY INTEREST	22,022	17,001	3,650	(11,558)	6,434
Minority interest	(1,357)	(1,593)	—	—	—
NET EARNINGS (LOSS)	\$ 20,665	\$ 15,408	\$ 3,650	\$ (11,558)	\$ 6,434
EARNINGS (LOSS) PER SHARE⁽⁶⁾					
Basic	\$ 0.71	\$ 0.54	\$ 0.12	\$ (0.42)	—
Diluted	\$ 0.68	\$ 0.50	\$ 0.11	\$ (0.42)	—
SYSTEMS AND OTHER DATA:					
Total systems signed ⁽⁷⁾	60	29	24	19	17
New systems delivered	24	26	11	13	15
Total systems in operation	159	149	130	120	107
Total systems in sales backlog	77	45	44	36	31
Revenue in sales backlog ⁽⁸⁾	\$ 175,394	\$ 131,835	\$ 107,238	\$ 80,767	\$ 63,465

⁽¹⁾ The Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 1994 gives effect to the issuance and sale of senior notes, the application of the net proceeds therefrom, the acquisition of Predecessor Imax and TCI, the equity conversions and the issuance of common shares (collectively "the Transactions") as if the Transactions had occurred on January 1, 1994.

⁽²⁾ Represents the historical data of Predecessor Imax which is not fully comparable in all respects as a result of the Transactions.

⁽³⁾ The costs and expenses for the years ended December 31, 1994, 1995, 1996 and 1997 include \$9.3 million, \$2.5 million, \$1.9 million and \$1.4 million respectively, of charges for the amortization of purchase accounting adjustments.

⁽⁴⁾ The selling, general and administrative expenses for the year ended December 31, 1994 include \$1.1 million of non-recurring charges as a result of the Transactions.

⁽⁵⁾ The research and development expenses for the year ended December 31, 1994 include a non-recurring charge of \$2.4 million to reflect the

write-off of purchased in-process research and development in connection with the acquisition of Ridefilm.

⁽⁶⁾ Earnings (loss) per share in the current and prior periods give retroactive effect to (a) the 2-for-1 stock split which became effective by May 27, 1997 and (b) the adoption of FASB Statement of Standards No. 128 which became effective by December 31, 1997.

⁽⁷⁾ Represents the number of theatre systems which were the subject of sale or lease agreements and agreements for owned and operated theatres (including joint ventures) entered into by the Company in the years indicated. The number of signings indicated for 1995, 1996 and 1997 include four, three and three theatre systems upgrades, respectively; 1996 signings include three wholly-owned theatres; 1997 signings include nine joint ventures and three wholly-owned theatres.

⁽⁸⁾ Represents the minimum revenue on signed system sale and lease agreements that will be recognized as revenue as the associated theatre systems are delivered. Does not include revenues from wholly-owned, partnership or joint venture theatres.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1997 Highlights

- The Company reported record earnings of \$0.68 per share on a diluted basis representing a 36% increase over \$0.50 per share in 1996.
- In 1997, the Company experienced its strongest theatre systems sales in its 30-year history with signed agreements for 60 IMAX theatre systems valued at \$132.3 million representing a 107% increase in the number and 48% increase in the value of theatre systems signed versus the 29 theatre systems valued at \$89.6 million signed during 1996.
- As a result of the record signings activity, the Company's sales backlog increased by a record \$43.6 million in 1997 to \$175.4 million (representing the value of contracts for 77 theatre systems), an increase of 33% versus \$131.8 million (representing the value of contracts for 45 theatre systems) in 1996.
- In 1997, the Company launched a smaller IMAX 3D system, called IMAX 3D SR, to replicate the experience of a larger IMAX 3D theatre in a smaller space, primarily in multiplexes. The Company had 30 IMAX 3D SR systems in backlog at December 31, 1997.
- In 1997, the success of the IMAX 3D SR system led to the Company establishing relationships with Cinemark USA Inc., Edwards Theatres Circuit, Empire Theatres, Krikorian Premiere Theatres, Marcus Theatre Corporation and Regal Cinemas who contracted for a total of 36 IMAX theatre systems.
- In 1997, 93% of the Company's theatre signings were for IMAX 3D theatre systems versus only 22% of the Company's existing theatres using IMAX 3D technology.
- Total revenues increased 22% to \$158.5 million in 1997 from \$129.8 million in 1996. Recurring revenues increased by 38% in 1997 to \$60.4 million from \$43.8 million due to growth in the IMAX theatre network.
- The Company delivered 24 IMAX theatre systems in 1997. There were 159 IMAX theatres in operation in 22 countries at December 31, 1997. There were eight new 15/70 — format films released in 1997 bringing the total to 133 films.

Business of the Company

Imax Corporation designs and manufactures projection and sound systems for giant-screen (“15/70-format”) theatres based on proprietary and patented technology and is the largest producer and distributor of films for giant-screen theatres. The Company also designs and supplies custom attractions including motion simulation theatres for both large-scale attractions and smaller venues. The Company generally does not own IMAX theatres but leases its projection and sound systems and licenses the use of its trademarks. The IMAX brand name enjoys widespread recognition with more than 500 million viewers throughout the world having experienced the Company’s high-quality, giant-screen theatre attractions since 1970 including over 60 million viewers in 1997.

The IMAX theatre network is the most extensive giant-screen theatre network in the world with 159 theatres operating in 22 countries and a backlog of 77 theatre systems under signed contracts as of December 31, 1997. IMAX theatre systems combine advanced high-resolution projection systems, sound systems and screens as large as eight stories high (approximately 80 feet) that extend to the edge of a viewer’s peripheral vision to create highly realistic audio-visual experiences. As a result, audiences feel as if they are a part of the on-screen action in a way that is more intense and exciting than in traditional theatres. In addition, the Company’s IMAX 3D theatre systems combine the same projection and sound systems and up to eight story screens with 3D images that further increase the audience’s feeling of immersion in the film. IMAX theatre systems are often a featured attraction at high profile and prestigious locations such as the Smithsonian Institution, the Kennedy Space Center in Florida, Lincoln Square in New York, Port Vell in Barcelona, Spain, the Museum of Science and Industry in Chicago, the theatre adjacent to Grand Canyon National Park and the Luxor Hotel and Casino in Las Vegas, Nevada. Additionally, IMAX theatres and films have been showcased by major entertainment companies such as Universal Studios, The Walt Disney Company and Caesars Palace, Inc.

The Company derives revenue principally from long-term theatre system lease agreements, maintenance agreements, film production agreements, from the distribution of films and from the sale of motion simulators and other attractions products.

Theatre Systems

The Company generally provides its theatre systems on a long-term lease basis to customers with initial lease terms of typically 10 to 20 years. Lease agreements typically provide for three major sources of revenue: (i) upfront fees, (ii) ongoing royalty payments, and (iii) maintenance fees. The amount of upfront fees vary depending on the type of system and location and generally are paid to the Company in installments commencing upon the signing of the agreement and continuing through the delivery of the theatre system. Ongoing royalty payments are paid monthly over the term of the contract, commencing after delivery. These payments are generally equal to the greater of a fixed minimum amount per annum and a percentage of box office receipts. An annual maintenance fee is generally payable commencing in the second year of theatre operations. Both minimum royalty payments and maintenance fees are typically indexed to the local consumer price index.

Sales and sales-type leases

Revenues from the Company’s theatre system sale agreements and from theatre system lease agreements which transfer substantially all of the benefits and risks of ownership (“sales-type leases”) are recognized on the completed contract method (that is, upon delivery of the system). Revenues recognized at the time of the theatre system delivery consist of upfront fees and the present value of minimum royalties on sales-type leases over the initial term of the lease. For leases with initial terms greater than 10 years, the Company’s practice is to reserve the revenue related to the present value of minimum royalties beyond the initial 10 years. The timing of theatre system delivery is largely dependent on the timing of the construction of the customer’s theatre. Revenues recognized at the time of the theatre system delivery generally are derived from contracts signed 18 to 24 months prior to the date of recognition. Such revenue is shown as sales backlog until it is recognized upon delivery. Therefore, revenue for theatre systems is generally predictable on a long-term basis given the relationship to projected theatre system deliveries. However, systems revenue in any given quarter may vary significantly depending on the nature and timing of the delivery of systems.

Sales Backlog

Sales backlog represents the minimum revenues on signed system sale and lease agreements that will be recognized as revenue as the associated theatre systems are delivered. The minimum revenue comprises the upfront fees plus the present value of the minimum royalties due under sales-type lease agreements for the first 10 years of the initial lease term. The value of sales backlog does not include revenues from wholly-owned partnership or joint venture theatres, letters of intent, IMAX *Ridefilm* system contracts, or long-term conditional theatre commitments.

Film Production

Revenue from films produced for third parties is recognized when the film is completed and delivered to the sponsor. The associated production costs are deferred and charged against the associated revenue when the revenue is recognized. The completion of films for third parties depends upon the contracted delivery dates with film sponsors. Thus, both film revenues and film income in any given period will vary significantly depending upon the timing of the completion of films. Film revenues and film income typically will be particularly high in a year when the Company provides films for world's fairs. When the Company invests in films, costs incurred are deferred and shown on the balance sheet as film assets. Cash received from sales of the film in advance of delivery is shown as deferred revenue until the film is complete and delivered to the exhibitor. The film assets are amortized against revenues using the individual-film-forecast method in accordance with the Financial Accounting Standards Board Statement No. 53 ("FAS 53").

Film Distribution

Revenues from the distribution of films are recognized when films are exhibited by theatres. The cost of films are charged as expenses using the individual-film-forecast method in accordance with FAS 53. The individual-film-forecast method amortizes film costs (reflected on the balance sheet as film assets) in the same ratio that current gross revenues bear to anticipated total gross revenues. The costs of distribution of films are charged against the specific license to which they relate. Estimates of anticipated total gross revenues are reviewed quarterly by the Company and revised where necessary to reflect more current information.

Recurring Revenues

The Company's sources of revenue which are independent from the delivery of theatre systems and the completion of films for third parties include: royalties not subject to minimums, royalties in excess of minimum royalties and finance income on sales-type leases (collectively shown as "royalty revenue"), maintenance fees on systems, film distribution fees, film post-production fees, revenue from Company-operated and joint venture theatres, and camera rentals. Royalty revenue, systems maintenance revenue and film distribution fees generally increase with the growth in the installed base of IMAX theatres. Film distribution revenue is also dependent on the acquisition of new film titles for distribution. Revenues from Company-owned and joint venture theatres are dependent on the Company developing further theatres which it owns or has a participating interest in the theatre's revenue and/or profits. Revenues from post-production services are dependent on the number of theatres and the number of films in production. Camera rental revenue is dependent on the number of films in production.

The Company's recurring revenues have increased by 38% in 1997 to \$60.4 million from \$43.8 million in 1996 as royalties, maintenance fees, film distribution fees and post-production revenues have all increased primarily due to the growth in the IMAX theatre network.

International Operations

A significant portion of the Company's sales are made to customers located outside of the United States and Canada, primarily in Europe and Japan. During 1995, 1996 and 1997 approximately 48.9%, 39.5% and 47.6% respectively, of the Company's revenues were derived from sales outside the United States and Canada. The Company expects that international operations will continue to account for a substantial portion of its revenues in the future. In order to minimize exposure to exchange rate risk, the Company prices theatre systems (the largest component of revenues) in U.S. dollars except in Canada and Japan where they are priced in Canadian dollars and Japanese yen, respectively. Annual minimum royalty payments and maintenance fees follow a similar currency policy.

A substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. A portion of the net U.S. dollar flows of the Company are converted to Canadian dollars to fund Canadian dollar expenses, either through the spot market or through forward contracts. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen flows are converted to U.S. dollars generally through forward contracts to minimize currency exposure. The Company also has cash receipts under leases denominated in French francs which are converted to U.S. dollars generally through forward contracts to minimize currency exposure.

Accounting Policies

The Company reports its results under both United States generally accepted accounting principles ("U.S. GAAP") and Canadian generally accepted accounting principles. The financial statements and results referred to herein are reported under U.S. GAAP.

Results of Operations

Year Ended December 31, 1997 versus Year Ended December 31, 1996

In 1997, the Company had revenues of \$158.5 million and net earnings of \$20.7 million (\$0.68 per share on a diluted basis) compared to revenues of \$129.8 million and net earnings of \$15.4 million (\$0.50 per share on a diluted basis) in 1996. The increase in revenues of 22% is due to higher revenue in all three business segments. The substantial improvement in net earnings is principally due to higher systems revenue.

Theatre Network and Sales Backlog

The Company signed agreements for 60 theatre systems in 1997 which represents future minimum revenues of \$132.3 million, a 107% increase in the number and a 48% increase in the value of permanent theatre signings versus the 29 theatre systems valued at \$89.6 million signed during 1996. During 1997, the Company established relationships with Cinemark USA Inc., Edwards Theatres Circuit, Empire Theatres, Krikorian Premiere Theatres, Marcus Theatre Corporation and Regal Cinemas who contracted for a total of 36 IMAX theatre systems. Approximately 93% of the Company's theatre signings were for IMAX 3D systems compared to 75% in 1996. In addition, 88% of the Company's signings were for commercial locations versus 65% in 1996. As a result of the strong theatre signings, the Company's sales backlog increased by \$43.6 million in 1997 to \$175.4 million, a 33% increase from \$131.8 million at December 31, 1996 and the largest dollar value increase in the Company's history.

The IMAX theatre network increased to 159 theatres in operation at December 31, 1997 from 149 theatres at the beginning of the year. The following is a geographic, market and product breakdown of the IMAX theatres in operation and theatres in backlog at December 31, 1997:

	EXISTING THEATRES		INCLUDING BACKLOG ⁽¹⁾	
	THEATRES	PERCENT	THEATRES	PERCENT
Geographic				
United States	76	48%	54	73%
Europe	27	17	8	11
Japan	17	11	—	—
Canada	15	9	2	3
Asia (excluding Japan)	11	7	4	5
Mexico	8	5	—	—
Australia	4	2	3	4
South Africa	1	1	1	1
Middle East	—	—	2	3
Total	159	100%	74	100%
Market				
Science and Natural History	86	54%	12	16%
Commercial	41	26	62	84
Theme Parks	21	13	—	—
Destination Sites	5	3	—	—
Zoos and Aquaria	6	4	—	—
Total	159	100%	74	100%
Product				
2D	124	78%	13	18%
3D	35	22	61	82
Total	159	100%	74	100%

⁽¹⁾Backlog excludes two upgrades from IMAX to IMAX 3D and one replacement of a 2D system.

Film Library

There were eight new films released in the 15/70-format in 1997, bringing the total number of available films to 133 at the end of the year. The Company has the distribution rights to 47 of those films. In 1997, the Company released three new films: *Mission To Mir* (2D), *The IMAX Nutcracker* (3D) and *The Hidden Dimension* (3D). In 1997, the Company completed two films for IMAX Ridefilm theatres and began production on one film which is scheduled to be completed in 1998.

The Company currently has one film in production, *T-REX: Back to the Cretaceous*, which will feature eight-story high 3D digital dinosaurs and is scheduled for release in the fall of 1998, and nine films in development and pre-production. The Company also has a number of projects in development. As of December 31, 1997 there were more than 20 films in the 15/70-format in production, including the one being produced by the Company.

Revenues

The Company's revenues in 1997 were \$158.5 million, compared to \$129.8 million in 1996, an increase of 22%. The following table sets forth the breakdown of revenue by category in thousands of dollars:

	1997	1996	1995
Systems Revenue			
Sales and leases	\$ 78,672	\$ 70,671	\$ 39,389
Royalties ⁽¹⁾	10,285	7,949	6,009
Maintenance	8,582	7,352	6,570
	97,539	85,972	51,968
Film Revenue			
Production	6,459	8,298	8,601
Distribution	21,953	13,422	15,332
Post-production	11,271	6,647	4,902
	39,683	28,367	28,835
Other Revenue	21,237	15,499	7,694
	\$ 158,459	\$ 129,838	\$ 88,497

⁽¹⁾Includes finance income.

Systems Revenues

Systems revenues increased from \$86.0 million in 1996 to \$97.5 million in 1997, an increase of 13%. Revenue from sales and leases increased from \$70.7 million to \$78.7 million, an increase of 11%. The Company recognized revenues on the delivery of 24 theatre systems under sales and sales-type leases in 1997 as compared to 26 theatre systems in 1996. The theatre system deliveries in 1997 included two upgrades from IMAX to IMAX 3D compared to three upgrades in 1996. Royalty revenue and maintenance revenue increased 29% and 17%, respectively, over the prior year principally due to the increased number of theatre systems in the network.

Film Revenues

Film revenues increased from \$28.4 million in 1996 to \$39.7 million in 1997. Film distribution revenues increased from \$13.4 million in 1996 to \$22.0 million in 1997, an increase of 64%. Film distribution revenues increased in 1997 over 1996 due to strong results of films which were released in the latter half of 1996 and in 1997 and also due to growth in the IMAX theatre network. Film post-production activities generated revenues of \$11.3 million in 1997 versus \$6.6 million in 1996, an increase of 70%. The growth in revenues was due to an increase in the number of post-production projects, an increase in the number of prints released and extensions of related products and services.

Other Revenues

Other revenues of \$21.2 million in 1997 represented an increase of 37% over 1996. The growth in other revenues is primarily due to the delivery of 15 IMAX *Ridefilm* systems in 1997 versus seven in 1996. Theatre operations revenue also increased 17% in 1997 over 1996 due to the opening of a new joint venture theatre at the end of 1996.

Gross Margin

Gross margin in 1997 was \$84.7 million versus \$71.6 million in 1996. Gross margin improved in 1997 over 1996 principally due to the higher average value of systems deliveries, increased royalty revenue and the increase in film revenues in 1997. The average value of systems deliveries increased in 1997 due to a higher number of IMAX 3D and international theatre systems delivered compared to 1996. In 1997 gross margin as a percentage of revenue was 53.4% versus 55.1% in 1996. The decline in gross margin as a percentage of total revenues in 1997 from 1996 was due to the higher proportion of film and other revenues which are generally lower margin revenue sources than systems revenue.

Other

Selling, general and administrative expenses were \$32.1 million in 1997 versus \$29.5 million in 1996. The increase in selling, general and administrative costs in 1997 over 1996 resulted primarily from an increase in performance based compensation expenses, marketing, branding and affiliate relations initiatives and litigation costs, offset by a decrease in costs associated with the Company's *Ridefilm* division.

Research and development expenses were \$2.1 million in 1997 versus \$2.5 million in 1996. The Company's technical staff were engaged, earlier in 1997, in the design and production of the new IMAX 3D SR system and not in the typical research and development activities. Research and development expenses returned to historical levels in the latter half of 1997.

Interest expense included a full year's debt service in 1997 related to the 5¾% Convertible Subordinated Notes which were issued in April 1996 resulting in a \$1.6 million increase in interest expense in 1997 compared to the prior year.

The Company experienced a foreign exchange loss of \$0.6 million in 1997 compared to a loss of \$0.3 million in 1996. The foreign exchange loss in 1997 and 1996 resulted primarily from fluctuations in exchange rates on Canadian dollar, Japanese yen and French franc denominated cash balances and net investment in leases.

The effective tax rate on earnings before tax differs from the statutory tax rate and will vary from year to year primarily as a result of the amortization of goodwill, which is not deductible for tax purposes, manufacturing and processing profits deduction and the provision of income taxes at different rates in foreign and other provincial jurisdictions.

Minority interest expense of \$1.4 million and \$1.6 million in 1997 and 1996, respectively, represents a 49% minority interest in the earnings of the Company's subsidiary, Sonics Associates Inc.

Year Ended December 31, 1996 versus Year Ended December 31, 1995

Revenues

The Company's revenues in 1996 were \$129.8 million compared to \$88.5 million in 1995, an increase of 47%.

Systems revenues increased from \$52.0 million in 1995 to \$86.0 million in 1996, an increase of 65%. Revenue from sales and leases increased from \$39.4 million to \$70.7 million, an increase of 79%. The Company recognized revenues on the delivery of 26 theatre systems under sales and sales-type leases in 1996 as compared to 11 theatre systems in 1995. The deliveries recognized in 1996 included three upgrades of theatre systems from IMAX to IMAX 3D and one settlement of a canceled contract for a system for EXPO '96. In 1995, the Company recognized revenues on the settlement of three canceled contracts for systems for EXPO '96. Royalty revenue and maintenance revenue increased 32% and 12%, respectively, over the prior year principally due to the increased number of theatre systems in the network.

Film revenues decreased from \$28.8 million in 1995 to \$28.4 million in 1996. Decreases in film production and film distribution revenue were partially offset by an increase in film post-production revenue. One film was produced and released in each of 1996 and 1995. Film production revenue in 1995 also included settlements reached on two films to be produced for sponsors at EXPO '96 that were canceled. Film distribution revenues were \$13.4 million in 1996 compared to \$15.3 million in 1995, a decrease of 13%. The decrease in revenue was principally due to the timing of release of new films later in the year in 1996. Film post-production activities generated revenues of \$6.6 million in 1996 versus \$4.9 million in 1995, an increase of 36%. The growth in revenues was due to an increase in the number of post-production projects, an increase in the number of prints released and extensions of related products and services.

Other revenues of \$15.5 million in 1996 represented an increase of 101% over 1995. The growth in other revenues was primarily due to the delivery of seven IMAX *Ridefilm* systems in 1996 versus two in 1995. Camera rentals also increased in 1996 over the prior year due to the greater number of films in production.

Gross Margin

Gross margin in 1996 was \$71.6 million versus \$44.1 million in 1995. In 1996 gross margin as a percentage of sales was 55% versus 50% in 1995. Gross margin improved in 1996 over 1995 principally due to the higher number of systems deliveries and the higher proportion of systems revenue in 1996 (which is a higher margin revenue source than film and other revenues).

Other

Selling, general and administrative expenses were \$29.5 million in 1996 versus \$25.9 million in 1995. The increase in selling, general and administrative costs in 1996 over 1995 resulted primarily from an increase in marketing and sales efforts in response to growing demand, the establishment of the owned and operated theatre business and litigation costs.

Research and development expenses were \$2.5 million in 1996 versus \$2.8 million in 1995. The decline in research and development expenses is the result of redirecting a portion of the Company's technical resources to capital projects.

Interest income and interest expense increased by \$2.4 million and \$4.4 million over the prior year due to the issuance of \$100 million of 5¾% Convertible Subordinated Notes in April 1996, a significant portion of the proceeds of which remained invested in cash and cash equivalents and marketable securities at year-end.

Due to the continued growth of the Company's business outside of Canada and the additional U.S. dollar denominated financing raised by the Company in April 1996, the Company adopted the U.S. dollar as its functional currency commencing April 1, 1996. The Company experienced a foreign exchange loss of \$0.3 million in 1996 principally due to fluctuations in the exchange rates on Japanese yen and French franc denominated cash balances and net investment in leases.

Impact of Year 2000

The Company has assessed, and continues to assess, the impact of the Year 2000 issue on its operations, including the development of preliminary cost estimates for and the extent of computer systems changes required to address this issue. The Company has decided to replace its key manufacturing and financial software systems and believes that with conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems. Although final cost estimates have yet to be determined, it is expected that modifying or replacing these systems will not have a material effect on the Company's financial position or its results of operations in 1998 and 1999.

The impact of Year 2000 issues on the Company will also be affected by the Year 2000 readiness of its customers as well as of its suppliers of raw materials, components and software and its providers of facilities, equipment and services and any failure on their part to achieve readiness in their own operations or with respect to the items they supply or otherwise provide to the Company. While the Company is beginning to consider what inquiries might be appropriate to make of such other parties (principally of its suppliers and other providers) in these regards, there can be no assurance that the Year 2000 issues confronting such other parties and any failure on their part to timely address them will not have a material adverse effect on the Company.

Liquidity and Capital Resources

At December 31, 1997, the Company's principal source of liquidity included cash and cash equivalents of \$64.1 million, trade accounts receivable of \$32.4 million, net investment in leases of \$6.0 million due within one year, marketable securities of \$26.5 million and the amounts receivable under contracts in backlog which are not yet reflected on the balance sheet.

In addition, the Company is party to an agreement with The Toronto-Dominion Bank with respect to a working capital facility. The Bank has made available to the Company a revolving loan in an aggregate amount up to Canadian \$10 million or its U.S. dollar equivalent based on accounts receivable balances and levels of minimum contractual royalty payments. Loans made under the working capital facility bear interest at the prime rate of interest plus $\frac{1}{4}\%$ per annum for Canadian dollar denominated loans and, for U.S. dollar denominated loans, at the U.S. base rate of interest established by the Bank plus $\frac{1}{4}\%$. These loans are repayable upon demand. At December 31, 1997, Canadian \$6.3 million was available for use under this facility.

The Senior Notes due March 1, 2001 are subject to redemption by the Company, in whole or in part, at any time on or after March 1, 1998 at redemption prices expressed as percentages of the principal amount (1998 — 104.29%; 1999 — 102.86%; 2000 — 101.43%) together with interest accrued thereon to the redemption date. Subject to market conditions, the Company may elect to redeem some or all of the Senior Notes prior to their maturity as part of a refinancing of its capital structure.

In April 1996, the Company completed a private placement of a \$100 million offering of $5\frac{3}{4}\%$ Convertible Subordinated Notes (the "Subordinated Notes") due 2003. These Notes are convertible into common shares of the Company at the option of the holder at a conversion price of \$21.406 per share (equivalent to a conversion rate of 46.7154 shares per \$1,000 principal amount of Notes) at any time prior to maturity. The Notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (1999 — 103.286%; 2000 — 102.464%; 2001 — 101.643%; 2002 — 100.821%) plus accrued interest. The Subordinated Notes may only be redeemed by the Company between April 1, 1999 and April 1, 2001 if the last reported market price of the Company's common shares is equal to or greater than \$30 per share for any 20 of the 30 consecutive trading days prior to the notice of redemption. The Subordinated Notes may be redeemed at any time on or after April 1, 2001 without limitation.

The Company partially funds its operations through cash flow from operations. Under the terms of the Company's typical theatre system lease agreement, the Company receives substantial cash payments before it completes the performance of its obligations. Similarly, the Company typically receives cash payments for film productions in advance of related cash expenditures. These cash flows have generally been adequate to finance the ongoing operations of the Company.

Cash provided by operating activities amounted to \$11.6 million for the year ended December 31, 1997 after the payment of \$11.4 million of interest, \$5.1 million of income taxes and working capital requirements. Working capital requirements included an increase of \$15.1 million in accounts receivable, primarily related to an increase in upfront fees billed in connection with the higher signings activity and the growth in the number of systems in backlog, and an increase of \$18.7 million in net investment in leases due to the theatre systems delivered under sales-type leases in 1997. Cash used in investing activities in 1997 amounted to \$53.5 million. Of this amount, \$28.1 million was invested in film assets, principally *The IMAX Nutcracker*, *T-REX: Back to the Cretaceous*, *The Hidden Dimension* and the IMAX *Ridefilm* film library, \$12.7 million was invested in capital assets, \$8.3 million was invested in marketable securities and \$4.5 million was invested in other assets, principally investments in a joint ventured theatre, IMAX Attractions and IMAX *Ridefilm* operations. Cash provided by financing activities included proceeds of \$5.8 million from the issuance of common shares pursuant to the Company's stock option plan and repayment of the Company's long-term debt totaling \$2.3 million.

Cash provided by operating activities amounted to \$26.8 million for the year ended December 31, 1996 after the payment of \$7.9 million of interest, \$2.4 million of income taxes, and working capital requirements. Working capital requirements in 1996 included an increase of \$15.5 million in net investment in leases due to the increased number of theatre systems deliveries under sales-type lease contracts and a \$3.8 million increase in inventories due to manufacturing activity related to systems in backlog scheduled for delivery in 1997 and IMAX *Ridefilm* systems. The increase in accounts receivable in 1996 was offset by a similar increase in accounts payable and accrued liabilities. Cash used in investing activities in 1996 was \$48.5 million. Of this amount, \$15.5 million was used to acquire capital assets, principally camera assets, motion simulation equipment and the Company's investment in an owned and operated theatre, \$14.8 million was invested in film assets and \$18.2 million was invested in marketable securities.

The Company believes that cash flow from operations together with existing cash balances and the working capital facility will be sufficient to meet cash requirements of its existing level of operations for the foreseeable future.

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Imax Corporation as at December 31, 1997 and 1996 and the consolidated statements of operations, shareholders' equity and cash flow for each year in the three-year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and cash flows for each year in the three-year period ended December 31, 1997 in accordance with United States generally accepted accounting principles.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

Toronto, Ontario

February 10, 1998

(Except for Note 19 which is at March 5, 1998)

CONSOLIDATED BALANCE SHEETS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(IN THOUSANDS OF U.S. DOLLARS)

	AS AT DECEMBER 31,	
	1997	1996
ASSETS		
Current assets		
Cash and cash equivalents	\$ 64,069	\$ 102,589
Short-term marketable securities	10,184	—
Accounts receivable	32,401	17,995
Current portion of net investment in leases (note 3)	6,007	4,218
Inventories and systems under construction (note 4)	21,922	21,292
Prepaid expenses	2,474	2,109
Total current assets	137,057	148,203
Long-term marketable securities	16,277	18,099
Net investment in leases (note 3)	51,825	34,494
Film assets (note 5)	42,036	19,050
Capital assets (note 6)	41,360	34,153
Goodwill (note 6)	43,915	46,454
Other assets (note 7)	11,889	8,291
Total assets	\$ 344,359	\$ 308,744
LIABILITIES		
Current liabilities		
Accounts payable	\$ 7,129	\$ 4,530
Accrued liabilities	24,220	16,677
Current portion of deferred revenue	29,067	40,485
Current portion of long-term debt	—	1,156
Income taxes payable	318	2,213
Total current liabilities	60,734	65,061
Deferred revenue	13,618	14,117
Long-term debt	—	1,178
Senior notes (note 8)	65,000	64,689
Convertible subordinated notes (note 9)	100,000	100,000
Deferred income taxes (note 13)	19,596	6,081
Total liabilities	258,948	251,126
Minority interest	2,950	1,593
Redeemable preferred shares (note 10)	1,344	1,184
Commitments and contingencies (notes 11,16, 17 and 19)		
SHAREHOLDERS' EQUITY		
Capital stock (note 10)	52,604	46,810
Retained earnings	28,642	8,307
Cumulative translation adjustment	(129)	(276)
Total shareholders' equity	81,117	54,841
Total liabilities and shareholders' equity	\$ 344,359	\$ 308,744

Approved on behalf of the Board



DIRECTOR



DIRECTOR

(the accompanying notes are an integral part of these consolidated financial statements)

CONSOLIDATED STATEMENTS OF OPERATIONS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(IN THOUSANDS OF U.S. DOLLARS EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
REVENUE			
Systems	\$ 97,539	\$ 85,972	\$ 51,968
Films	39,683	28,367	28,835
Other	21,237	15,499	7,694
	158,459	129,838	88,497
Costs and expenses	73,806	58,257	44,348
GROSS MARGIN	84,653	71,581	44,149
Selling, general and administrative expenses	32,115	29,495	25,925
Research and development	2,129	2,493	2,808
Amortization of intangibles	2,701	2,708	2,541
EARNINGS FROM OPERATIONS	47,708	36,885	12,875
Interest income	5,604	5,797	3,377
Interest expense	(13,402)	(11,765)	(7,337)
Foreign exchange (loss) gain	(623)	(337)	193
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	39,287	30,580	9,108
Provision for income taxes (note 13)	(17,265)	(13,579)	(5,458)
EARNINGS BEFORE MINORITY INTEREST	22,022	17,001	3,650
Minority interest	(1,357)	(1,593)	—
NET EARNINGS	\$ 20,665	\$ 15,408	\$ 3,650
EARNINGS PER SHARE (NOTE 10)			
Basic	\$ 0.71	\$ 0.54	\$ 0.12
Diluted	\$ 0.68	\$ 0.50	\$ 0.11

(the accompanying notes are an integral part of these consolidated financial statements)

CONSOLIDATED STATEMENTS OF CASH FLOW
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(IN THOUSANDS OF U.S. DOLLARS)

	YEARS ENDED DECEMBER 31,		
	1997	1996	1995
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Net earnings	\$ 20,665	\$ 15,408	\$ 3,650
Items not involving cash:			
Depreciation and amortization (note 14)	15,075	12,685	13,565
Deferred income taxes	14,015	8,961	3,817
Minority interest	1,357	1,593	—
Amortization of discount on senior notes	311	1,863	1,743
Other	259	145	381
Changes in deferred revenue on film production	(5,840)	3,331	(4,499)
Changes in other operating assets and liabilities (note 14)	(34,254)	(17,211)	(14,706)
Net cash provided by operating activities	11,588	26,775	3,951
INVESTING ACTIVITIES			
Increase in marketable securities	(8,250)	(18,164)	—
Increase in film assets	(28,056)	(14,822)	(3,673)
Purchase of capital assets	(12,654)	(11,905)	(4,968)
Increase in other assets	(4,502)	(3,638)	—
Net cash used in investing activities	(53,462)	(48,529)	(8,641)
FINANCING ACTIVITIES			
Repayment of long-term debt	(2,326)	(729)	(1,266)
Repurchase of senior notes	—	(4,919)	—
Issue of convertible subordinated notes	—	100,000	—
Deferred charges on debt financing	—	(3,301)	—
Common shares issued	5,758	2,038	18
Common shares and warrants repurchased	—	(19,508)	(84)
Net cash provided by (used in) financing activities	3,432	73,581	(1,332)
Effect of exchange rate changes on cash	(78)	15	(180)
Increase (decrease) in cash and cash equivalents during the year	(38,520)	51,842	(6,202)
Cash and cash equivalents, beginning of year	102,589	50,747	56,949
Cash and cash equivalents, end of year	\$ 64,069	\$ 102,589	\$ 50,747

(the accompanying notes are an integral part of these consolidated financial statements)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(IN THOUSANDS OF U.S. DOLLARS)

	NUMBER OF COMMON SHARES ISSUED AND OUTSTANDING	CAPITAL STOCK	RETAINED EARNINGS (DEFICIT)	CUMULATIVE TRANSLATION ADJUSTMENT	TOTAL SHAREHOLDERS' EQUITY
Balance at December 31, 1994	28,173,856	\$ 63,759	\$ (10,148)	\$ (685)	\$ 52,926
Issuance of common stock	7,402	18	—	—	18
Common stock acquired and canceled	(28,000)	(84)	—	—	(84)
Accrual of stock compensation benefit	—	353	—	—	353
Accrual of preferred dividends	—	—	(169)	—	(169)
Accretion of discount on preferred shares	—	—	(125)	—	(125)
Net earnings	—	—	3,650	—	3,650
Foreign currency translation adjustments	—	—	—	917	917
Balance at December 31, 1995	28,153,258	64,046	(6,792)	232	57,486
Issuance of common stock	391,960	2,038	—	—	2,038
Common shares and warrants repurchased	(660,000)	(19,508)	—	—	(19,508)
Accrual of stock compensation benefit	—	234	—	—	234
Accrual of preferred dividends	—	—	(169)	—	(169)
Accretion of discount on preferred shares	—	—	(140)	—	(140)
Net earnings	—	—	15,408	—	15,408
Foreign currency translation adjustments	—	—	—	(508)	(508)
Balance at December 31, 1996	27,885,218	46,810	8,307	(276)	54,841
Issuance of common stock	1,230,200	5,758	—	—	5,758
Accrual of stock compensation benefit	—	36	—	—	36
Accrual of preferred dividends	—	—	(170)	—	(170)
Accretion of discount on preferred shares	—	—	(160)	—	(160)
Net earnings	—	—	20,665	—	20,665
Foreign currency translation adjustments	—	—	—	147	147
Balance at December 31, 1997	29,115,418	\$ 52,604	\$ 28,642	\$ (129)	\$ 81,117

(the accompanying notes are an integral part of these consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1997, 1996 and 1995.

(TABULAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS UNLESS OTHERWISE STATED)

1. Description of the Business

Imax Corporation provides a wide range of products and services to the network of IMAX® theatres. The principal activities of the Company are:

- the design, manufacture and marketing of proprietary projection and sound systems for IMAX theatres;
- the development, production and distribution of films shown in the IMAX theatre network;
- the design and supply of IMAX attractions hardware and films including motion simulation products; and
- the provision of other services to the IMAX theatre network including designing and manufacturing IMAX camera equipment for rental to filmmakers, providing film post-production image quality assurance and providing ongoing maintenance services for the IMAX projection and sound systems.

2. Summary of Significant Accounting Policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to film assets, capital assets, goodwill and the measurement of contingencies. Actual results could be materially different from these estimates. Significant accounting policies are summarized as follows:

[a] Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

[b] Investments

Investments in marketable securities categorized as available-for-sale securities are carried at fair value with unrealized gains or losses included in a separate component of shareholders' equity. Investments in marketable securities categorized as held-to-maturity securities are carried at amortized costs.

Investments in joint ventures are accounted for by the equity method of accounting under which consolidated net earnings include the Company's share of earnings or losses of the investees. The carrying values of the investments are adjusted for the Company's share of undistributed income or losses since acquisition and dividends received are recorded as a reduction in the investments. Writedowns are only made for declines in value which are other than temporary.

[c] Inventories

Inventories are carried at the lower of cost, determined on a first-in, first-out basis, or net realizable value. Finished goods and work-in-process include the cost of raw materials, direct labor and manufacturing overhead costs.

[d] Film assets

Film assets represent costs incurred in producing and distributing films net of accumulated amortization. The film costs are charged as expenses using the individual-film forecast method as prescribed by Statement of Financial Accounting Standards No. 53 whereby film costs are amortized in the same ratio that current gross revenues bear to anticipated total gross revenues. Estimates of anticipated total gross revenues are reviewed quarterly by management and revised where necessary to reflect more current information.

The recoverability of film costs is dependent upon commercial acceptance of the films. Any capitalized costs of a film that are determined to be unrecoverable are charged to operations in the period that determination is made.

[e] Capital assets

Capital assets are stated at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Projection equipment	10 to 15 years
Motion simulation equipment	5 years
Camera equipment	5 to 10 years
Buildings	20 to 25 years
Office and production equipment	3 to 5 years
Leasehold improvements	Over the term of the underlying leases

[f] Goodwill

Goodwill represents the excess purchase price of acquired businesses over the fair value of net assets acquired. Goodwill is amortized on a straight-line basis over its estimated life ranging from 10 to 25 years. The carrying value of goodwill is periodically reviewed by the Company and impairments are recognized in earnings when the expected future operating cash flows derived from the acquired businesses are less than the carrying value.

[g] Deferred revenue

Deferred revenue comprises receipts under systems sales and lease contracts, film production contracts and film exhibition contracts not yet recognized as revenue. The current portion of deferred revenue represents the estimated amount to be recognized in earnings during the following 12-month period.

[h] Income taxes

Income taxes are accounted for under the asset and liability method whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change occurs.

[i] Revenue and cost recognition

Sales and sales-type leases

Revenues from theatre system sales and leases which transfer substantially all of the benefits and risks of ownership to the customer ("sales-type leases") are recognized on the completed contract method (that is upon delivery of the system). Revenues include initial advance payments and contracted minimum rental payments discounted to their present value.

Cash receipts under initial advance payments are generally received in advance of deliveries and are recorded as deferred revenue. The associated costs are recorded as inventories and systems under construction. Upon delivery of the theatre system, the deferred revenue and deferred costs, net of residual value at the end of the lease term, are recognized in earnings.

The Company recognizes the present value of the minimum rentals on sales-type leases upon delivery of the theatre system. Cash receipts under minimum rental payments are received after delivery. Typically, ongoing rentals are received over the life of the system agreement and under any renewal periods. In the event of default of payment of minimum contracted rentals, the Company may repossess the system and refurbish it for resale. Royalties in excess of minimum rentals are recorded as revenue when due under the terms of the lease agreement.

Operating leases

Revenues from leases which do not transfer substantially all of the benefits and risks of ownership to the customer are treated as operating leases where revenues and direct expenses are recognized over the term of the lease and costs of leased assets are amortized over their estimated useful lives.

Film production revenues

Revenues from films produced for third parties are recognized when the film is completed and delivered to the sponsor. The associated production costs are deferred and subsequently charged to earnings when the film is delivered and the revenue is recognized.

[j] Research and development

Research and development expenditures are expensed as incurred.

[k] Foreign currency translation

Effective April 1, 1996, the U.S. dollar was adopted as the Company's functional currency as a result of the continued growth of the Company's business outside of Canada and the additional U.S. dollar denominated financing raised by the Company in April 1996. Monetary assets and liabilities of the Company's operations which are denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the exchange rates prevailing at year end. Non-monetary items are translated at historical exchange rates. Revenue and expense transactions are translated at exchange rates prevalent at the transaction date. All exchange gains and losses are included in the determination of net earnings in the period in which they arise.

[l] Stock-based compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, became effective for the Company for the year ended December 31, 1996. This statement allows enterprises to continue to measure compensation cost for employee stock option plans using the methodology currently prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company elected to remain with the accounting in Opinion No. 25 and has made pro forma disclosures of net earnings and earnings per share in Note 10 as if the methodology prescribed by Statement No. 123 had been adopted.

3. Net Investment in Leases and Lease Payments Receivable

The Company enters into sales-type leases which have initial advance payments and annual rental payments with contracted minimums which are generally indexed with inflation. The Company's net investment in sales-type leases comprises:

		1996
Total minimum lease payments receivable	\$ 109,036	\$ 58,638
Residual value of equipment	3,157	2,081
Unearned finance income	(51,014)	(21,560)
Present value of minimum lease payments receivable	61,179	39,159
Valuation allowance	(3,347)	(447)
	57,832	38,712
Less current portion	6,007	4,218
	\$ 51,825	\$ 34,494

Income recognized on systems from annual rental payments comprised the following:

	1997	1996	1995
Minimum rental payments on operating leases	\$ 1,273	\$ 1,178	\$ 1,230
Contingent rentals	4,971	3,892	2,982
Finance income	4,041	2,878	1,797
Total	\$ 10,285	\$ 7,948	\$ 6,009

The estimated amount of minimum rental payments receivable from all signed leases, excluding those in sales backlog at December 31, 1997, for each of the next five years is as follows:

1998	\$	7,826
1999		8,693
2000		9,270
2001		9,599
2002		9,897

4. Inventories and Systems Under Construction

	1997	1996
Raw materials	\$ 6,943	\$ 4,840
Work-in-process	14,508	15,008
Finished goods	471	417
Acquired contracts in process	—	1,027
	\$ 21,922	\$ 21,292

5. Film Assets

	1997	1996
Completed films, net of amortization	\$ 30,396	\$ 12,730
Films in production	11,313	5,699
Acquired film rights, net of amortization	327	621
	\$ 42,036	\$ 19,050

6. Capital Assets

1997			
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Equipment held for lease			
Projection equipment	\$ 9,964	\$ 4,052	\$ 5,912
Motion simulation equipment	3,403	1,090	2,313
Camera equipment	9,466	2,440	7,026
	22,833	7,582	15,251
Assets under construction	3,634	—	3,634
Other capital assets			
Land	2,431	—	2,431
Buildings	14,557	1,793	12,764
Office and production equipment	14,297	7,150	7,147
Leasehold improvements	398	265	133
	31,683	9,208	22,475
	\$ 58,150	\$ 16,790	\$ 41,360

1996			
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Equipment held for lease			
Projection equipment	\$ 11,305	\$ 3,859	\$ 7,446
Motion simulation equipment	3,378	414	2,964
Camera equipment	7,239	1,739	5,500
	21,922	6,012	15,910
Other capital assets			
Land	2,431	—	2,431
Buildings	11,500	1,331	10,169
Office and production equipment	9,911	4,351	5,560
Leasehold improvements	314	231	83
	24,156	5,913	18,243
	\$ 46,078	\$ 11,925	\$ 34,153

The accumulated amortization of goodwill was \$9,869,000 and \$7,330,000 at December 31, 1997 and 1996, respectively.

7. Other Assets

	1997	1996
Investments in joint ventures accounted for under the equity method	\$ 6,915	\$ 3,355
Deferred charges on debt financing	3,771	4,653
Other assets	1,203	283
	\$ 11,889	\$ 8,291

8. Senior Notes

The Senior Notes due March 1, 2001 were issued in 1994 at a discount from their principal amount and bear interest at 10 per cent per annum (7 per cent prior to March 1, 1997) with interest payable in arrears on March 1 and September 1. The Senior Notes are the senior obligations of the Company, ranking senior in right of payment to all subordinated indebtedness of the Company, and pari passu in right of payment to all senior indebtedness of the Company.

Interest expense related to the Senior Notes was \$6,175,000 during the year ended December 31, 1997 (1996 — \$6,621,000; 1995 — \$6,642,000).

The Senior Notes are subject to redemption by the Company, in whole or in part, at any time on or after March 1, 1998 at specified redemption prices expressed as percentages of the principal amount (1998 — 104.29%; 1999 — 102.86%; 2000 — 101.43%), together with interest accrued thereon to the redemption date.

The Senior Notes indenture contains covenants that, among other things, limit the ability of the Company and certain subsidiaries to incur additional indebtedness, pay dividends or make other distributions, make certain loans and investments, enter into asset sales, create liens, enter into certain sale-leaseback transactions, enter into certain transactions with affiliates, liquidate, or merge, consolidate or transfer substantially all their respective assets.

9. Convertible Subordinated Notes

In April 1996, the Company issued \$100 million of Convertible Subordinated Notes due April 1, 2003 bearing interest at 5.75 per cent payable in arrears on April 1 and October 1. The Notes, subordinate to present and future senior indebtedness of the Company, are convertible into common shares of the Company at the option of the holder at a conversion price of \$21.406 per share (equivalent to a conversion rate of 46.7154 shares per \$1,000 principal amount of Notes) at any time prior to maturity.

Interest expense related to the Convertible Subordinated Notes was \$5,750,000 during the year ended December 31, 1997 (1996 — \$4,159,000; 1995 — nil).

The notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (1999 — 103.286%; 2000 — 102.464%; 2001 — 101.643%; 2002 — 100.821%) plus accrued interest. The notes may only be redeemed by the Company between April 1, 1999 and April 1, 2001 if the last reported market price of the Company's common shares is equal to or greater than \$30 per share for any 20 of the 30 consecutive trading days prior to the notice of redemption. The notes may be redeemed at any time on or after April 1, 2001 without limitation.

10. Capital Stock and Redeemable Preferred Shares

[a] Authorized

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of Class C preferred shares issuable in two series.

The following is a summary of the rights, privileges, restrictions and conditions of each of the classes of shares.

Common Shares

The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Company, subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to the common shares.

The holders of the common shares are entitled to one vote for each common share held at all meetings of the shareholders.

Redeemable Class C preferred shares, Series 1

The holders of Class C shares are entitled to a cumulative dividend at the rate of 7 per cent per annum on the Class C issue price of Canadian \$100 per share. These dividends shall accrue from the issue date but shall not be declared or paid prior to the third anniversary date of the issue date. Dividends on the Class C shares are to be paid in priority to dividends payable to the holders of the common shares.

If on any anniversary date of the issue date after the third such anniversary date the Class C cumulative dividends to be paid on such date are not paid and such dividends were required to have been paid pursuant to certain conditions, then the rate at which Class C cumulative dividends shall accrue thereafter will increase by 1 per cent per annum to a maximum dividend rate of 10 per cent per annum until all Class C cumulative dividends have been paid as required, at which time the dividend rate will revert to 7 per cent per annum.

The Class C shares are redeemable at the option of the Company at any time in whole, or from time to time in part, in each case for an amount equal to the Class C issue price plus all accrued and unpaid dividends to, but not including, the date of such redemption. The Class C shares are to be redeemed in whole on September 1, 2002.

Except as otherwise required by law, the holders of Class C shares Series 1 are not entitled to vote at any meeting of the shareholders.

Redeemable Class C preferred shares, Series 2

The Class C Series 1 preferred shares may be converted at any time in whole upon a resolution of the directors of the Company into the same number of Class C Series 2 preferred shares. The Series 2 shares shall be identical to the Series 1 shares except that the holders of Series 2 shares will be entitled to such number of votes as the directors determine subject to a maximum of six per cent of the votes attaching to all voting shares of the Company outstanding immediately following the conversion.

[b] Changes during the period

Pursuant to shareholders' approval at the Annual and Special Meeting held on May 6, 1997, the Company's shares were split on a 2-for-1 basis in May 1997. Common share, stock option and earnings per share data for the current and comparative periods give retroactive effect to the stock split as if it had taken place at the beginning of the period.

In 1997, the Company issued 778,200 common shares pursuant to the exercise of stock options for cash proceeds of \$5,616,000 and 5,000 shares were issued under the terms of an employment contract with an ascribed value of \$37,000.

In 1996, the Company issued 386,960 common shares pursuant to the exercise of stock options for cash proceeds of \$2,001,000 and 5,000 shares were issued under the terms of an employment contract with an ascribed value of \$37,000. The Company repurchased 660,000 common shares and all of the outstanding warrants of the Company from certain officers and directors of the Company for \$19,508,000 in cash.

In 1995, the Company issued 7,402 common shares pursuant to the exercise of stock options for cash proceeds of \$18,000 and acquired 28,000 common shares for cancellation at a cash cost of \$84,000.

[c] Shares held for other than retirement

As at December 31, 1997, 213,000 (1996 — 660,000) issued common shares are held by a subsidiary of the Company for other than retirement. During 1997, 447,000 common shares held by a subsidiary of the Company were sold to a former employee of the Company in connection with the exercise of a stock option grant for cash proceeds of \$105,000.

[d] Stock options and warrants

The Company has reserved a total of 4,644,188 common shares for future issuance as follows:

(i) 381,744 common shares have been reserved for issuance pursuant to stock options granted in connection with the employment of Douglas Trumbull, former Vice Chairman of the Company, at an exercise price equivalent to Canadian \$0.32 per share and expire on September 1, 2002. These options are fully vested.

(ii) 51,608 common shares have been reserved for issuance pursuant to stock options granted at an exercise price equivalent to Canadian \$1.59 per share which vest over a five-year period and expire on April 8, 2004. At December 31, 1997, options in respect of 7,200 common shares were vested and exercisable.

(iii) 4,210,836 common shares have been reserved for issuance under the Employee Stock Option Plan, of which options in respect of 2,005,600 common shares are outstanding at December 31, 1997. The options granted under the Employee Stock Option Plan generally vest over a five-year period and expire 10 years from the date granted. As at December 31, 1997, options in respect of 636,800 common shares were vested and exercisable.

	NUMBER OF SHARES			AVERAGE EXERCISE PRICE PER SHARE		
	1997	1996	1995	1997	1996	1995
Options outstanding, beginning of year	2,126,800	2,009,800	1,115,000	\$ 8.99	\$ 6.86	\$ 6.37
Granted	711,000	481,000	1,107,000	23.10	15.47	7.33
Exercised	(749,200)	(350,800)	(1,200)	7.45	6.49	6.75
Canceled or expired	(83,000)	(13,200)	(211,000)	9.36	6.77	6.75
Options outstanding, end of year	2,005,600	2,126,800	2,009,800	\$ 14.55	\$ 8.99	\$ 6.86

The weighted average fair value of common share options granted in 1997 is \$5,604,000 (1996 — \$2,622,000). The fair value of common share options granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0 per cent, a riskfree interest rate of 6 per cent, expected life of the options ranging from two to five years and expected volatility of 40 per cent.

The following table summarizes certain information in respect of options outstanding under the Employee Stock Option Plan as at December 31, 1997:

	NUMBER OF SHARES		AVERAGE EXERCISE PRICE PER SHARE	AVERAGE REMAINING TERM
	OUTSTANDING	VESTED		
Range of exercise prices per share				
\$4.62-\$9.99	822,600	355,200	\$ 6.80	6 ¹ / ₂ years
\$10.00-\$14.99	108,000	22,000	11.22	8 years
\$15.00-\$19.99	598,000	259,600	16.34	8 years
\$20.00-\$27.00	477,000	—	26.44	9 ³ / ₄ years
Total	2,005,600	636,800	\$ 14.55	8 years

[e] Redeemable Preferred Shares

As at December 31, 1997 and 1996, there were 33,333 Class C Series 1 redeemable preferred shares issued and outstanding. Cumulative dividends payable on the Class C Series 1 redeemable preferred shares amounted to \$653,000 at December 31, 1997 (December 31, 1996 — \$483,000).

[f] Earnings Per Share

	1997	1996	1995
<i>Net earnings available to common shareholders:</i>			
Net earnings	\$ 20,665	\$ 15,408	\$ 3,650
less: accrual of preferred dividends	(170)	(169)	(169)
accretion of discount of preferred shares	(160)	(140)	(125)
	\$ 20,335	\$ 15,099	\$ 3,356
<i>Weighted average number of common shares:</i>			
Issued and outstanding at beginning of year	27,885,218	28,153,258	28,173,856
Weighted average shares			
Issued in the year	659,065	172,546	5,402
Repurchased in the year	—	(476,686)	(25,666)
Weighted average used in computing basic earnings per share	28,544,283	27,849,118	28,153,592
Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method	1,575,410	2,075,780	1,239,584
Weighted average used in computing diluted earnings per share	30,119,693	29,924,898	29,393,176

Common shares potentially issuable pursuant to the Convertible Subordinated Notes would have an antidilutive effect on earnings per share and have not been included in the above computations.

If the methodology prescribed by Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, had been adopted by the Company, pro forma results would have been as follows:

	1997	1996	1995
Net earnings	\$ 19,499	\$ 15,059	\$ 2,872
Earnings per share			
Basic	\$ 0.67	\$ 0.53	\$ 0.09
Diluted	\$ 0.64	\$ 0.49	\$ 0.09

11. Commitments

[a] Total minimum annual rental payments under operating leases for premises are as follows:

1998	\$	1,438
1999		1,910
2000		2,183
2001		2,441
2002		2,476

Rent expense was \$1,033,000 for the year ended December 31, 1997 (1996 — \$1,161,000; 1995 — \$944,000).

[b] The Company has unused lines of credit amounting to Canadian \$6.3 million, or the equivalent in U.S. dollars. No commitment fees are payable on these lines of credit.

[c] The Company has guaranteed up to \$5.75 million of a term loan undertaken by a joint venture to which it is a party in connection with the development and construction of an IMAX attraction in Las Vegas. The term loan, which matures in January 2009, bears interest at LIBOR plus 3 per cent and is collateralized by the assets of the joint venture.

12. Government Assistance

A portion of the Company's research activities which relate to 3D motion pictures is eligible for government grants. Government grants have been credited against research and development expense in the amount of \$100,000 during the year ended December 31, 1997 (1996 — \$324,000; 1995 — \$302,000).

13. Income Taxes

[a] Earnings before income taxes and minority interest by tax jurisdiction comprise the following:

	1997	1996	1995
Canada	\$ 31,872	\$ 32,461	\$ 9,239
United States	6,512	3,308	(3,346)
Japan	1,424	(5,351)	3,547
Other	(521)	162	(332)
Total	\$ 39,287	\$ 30,580	\$ 9,108

[b] The provision for income taxes comprises the following:

	1997	1996	1995
Current	\$ (3,250)	\$ (4,618)	\$ (1,641)
Deferred	(14,015)	(8,961)	(3,817)
Total	\$ (17,265)	\$ (13,579)	\$ (5,458)

[c] The provision for income taxes differs from the amount that would have resulted by applying the combined Canadian federal and Ontario provincial statutory income tax rates (44.62 per cent) to earnings as described below:

	1997	1996	1995
Income tax expense at combined statutory rates	\$ (17,530)	\$ (13,644)	\$ (4,039)
(Increase) decrease resulting from:			
Non-deductible expenses,			
including amortization of goodwill	(985)	(1,519)	(929)
Manufacturing and processing profits deduction	684	977	—
Large corporations tax	(335)	(275)	(146)
Income tax at different rates in foreign			
and other provincial jurisdictions	292	701	(785)
Investment tax credits and other	609	181	441
Provision for income taxes as reported	\$ (17,265)	\$ (13,579)	\$ (5,458)

[d] The deferred income tax liability consists of:

	1997	1996
Net operating loss carry forwards	\$ 2,349	\$ 4,318
Investment tax credit carry forwards	5,015	4,529
Asset write downs	800	800
Income recognition on systems deliveries	(52,374)	(31,827)
Excess book over tax depreciation and amortization	26,740	17,507
Other	(145)	864
	(17,615)	(3,809)
Valuation allowance	(1,981)	(2,272)
	\$ (19,596)	\$ (6,081)

14. Consolidated Statements of Cash Flow

	1997	1996	1995
[a] Changes in other operating assets and liabilities were as follows:			
Decrease (increase) in:			
Accounts receivable	\$ (15,081)	\$ (7,940)	\$ (4,007)
Net investment in leases	(18,674)	(15,499)	(10,791)
Inventories and systems under construction	(1,365)	(3,761)	(6,543)
Prepaid expenses	(604)	420	(537)
Increase (decrease) in:			
Accounts payable	2,428	1,446	(148)
Accrued liabilities	7,543	5,633	(251)
Income taxes payable	(2,423)	1,964	(232)
Other deferred revenue	(6,078)	526	7,803
	\$ (34,254)	\$ (17,211)	\$ (14,706)
[b] Cash payments made during the period on account of:			
Income taxes	\$ 5,145	\$ 2,395	\$ 1,863
Interest	11,402	7,872	5,261
[c] Depreciation and amortization comprise the following:			
Acquired systems contracts in process	\$ 1,027	\$ 1,337	\$ 1,745
Film assets	4,905	2,850	5,111
Capital assets	5,560	5,020	3,755
Intangibles	2,701	2,708	2,541
Deferred financing costs	882	770	413
	\$ 15,075	\$ 12,685	\$ 13,565

15. Segmented Information

The Company operates primarily in two industries: the design, manufacture and sale or lease of projection systems and the production, distribution and post-production of films. Inter-segment transactions are not significant.

	1997	1996	1995
Revenue			
Systems	\$ 97,539	\$ 85,972	\$ 51,968
Films	39,683	28,367	28,835
Other	21,237	15,499	7,694
	\$ 158,459	\$ 129,838	\$ 88,497
Earnings from operations			
Systems	\$ 52,594	\$ 45,224	\$ 23,193
Films	11,452	7,965	7,226
Other	1,000	(1,101)	(5,759)
Corporate overhead and research and development	(17,338)	(15,203)	(11,785)
	\$ 47,708	\$ 36,885	\$ 12,875
Depreciation and amortization			
Systems	\$ 6,741	\$ 6,781	\$ 7,192
Films	5,100	2,954	5,205
Other	3,234	2,950	1,168
	\$ 15,075	\$ 12,685	\$ 13,565
Capital expenditures			
Systems	\$ 6,103	\$ 3,406	\$ 3,942
Films	206	76	254
Other	6,345	8,423	772
	\$ 12,654	\$ 11,905	\$ 4,968
Identifiable assets			
Systems	\$ 167,926	\$ 146,835	\$ 121,853
Films	52,199	23,729	11,382
Corporate and other	124,234	138,180	61,280
	\$ 344,359	\$ 308,744	\$ 194,515

Revenue by geographic area comprises:

	1997	1996	1995
Canada	\$ 12,890	\$ 27,740	\$ 13,705
United States	70,070	50,852	31,491
Europe	38,238	25,567	11,999
Japan	11,986	17,350	26,808
Other	25,275	8,329	4,494
	\$ 158,459	\$ 129,838	\$ 88,497

16. Financial Instruments

From time to time the Company engages in hedging activities to reduce the impact of fluctuations in foreign currencies on its profitability and cash flow. The credit risk exposure associated with these activities would be limited to all unrealized gains on contracts based on current market prices. The Company believes that this credit risk has been minimized by dealing with highly rated institutions.

To fund Canadian dollar costs in 1998, the Company had entered into forward exchange contracts as at December 31, 1997 to hedge the conversion of \$30 million of its cash flow into Canadian dollars at an average exchange rate of Canadian \$1.36 per U.S. dollar.

The Company has also entered into foreign currency swap transactions to hedge minimum lease payments receivable under sales-type lease contracts denominated in Japanese yen and French francs. These swap transactions fix the foreign exchange rates on conversion of 168 million yen at 98 yen per U.S. dollar through September 2004 and on 17.4 million francs at 5.1 francs per U.S. dollar through September 2005.

The estimated fair values of the Company's financial instruments at December 31, 1997 are summarized as follows:

	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Cash and cash equivalents	\$ 64,069	\$ 64,069
Marketable securities	26,461	26,461
Senior notes	65,000	67,860
Convertible subordinated notes	100,000	121,250
Foreign currency contracts	973	(719)

The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments. Marketable securities, which principally represent investments in corporate bonds maturing through October 1999, have been categorized as available-for-sale securities and are carried at estimated fair value. The fair values of the Company's Senior Notes and Convertible Notes are estimated based on quoted market prices for the Company's debt. The fair value of foreign currency contracts held for hedging purposes represents the estimated amount the Company would receive or pay to terminate the agreements, taking into consideration current exchange rates and the credit worthiness of the counterparties.

17. Contingencies

[a] In April 1994, Compagnie France Film Inc. filed a claim against the Company in the Superior Court in the District of Montreal, in the Province of Quebec, alleging breach of contract and bad faith in respect of an agreement which the Plaintiff claims it entered into with the Company for the establishment of an IMAX theatre in Quebec City, Quebec, Canada. Until December 1993, Predecessor Imax was in negotiations with the Plaintiff and another unrelated party for the establishment of an IMAX theatre in Quebec City. In December 1993, Predecessor Imax executed a system lease agreement with the other party. During the negotiations, both parties were aware of the other party's interest in also establishing an IMAX theatre in Quebec City. The Plaintiffs are claiming damages of Canadian \$4.6 million, representing the amount of profit they claim they are denied due to their inability to proceed with an IMAX theatre in Quebec City, together with expenses incurred in respect of this project and pre-judgment interest. The Company has disputed this claim and it went to trial in January 1998. The Court has reserved its decision, which must be released within six months of the trial.

Compagnie France Film had also incorporated a shell company, 3101-8450 Quebec Inc. ("3101"). 3101 was to, among other things, enter into a lease for the proposed IMAX theatre site. In November 1993, while negotiations between Compagnie France Film and the Company were still ongoing, 3101 entered into a lease for the site. 3101 defaulted on the lease and the landlord sued 3101 in an unrelated action to which the Company was not a party. In February 1996, 3101 was found liable to pay the landlord damages in the amount of Canadian \$2.5 million. Subsequent to that judgment 3101 intervened in the lawsuit between Compagnie France Film and the Company in order to claim from the Company damages in the amount of Canadian \$2.5 million.

The Company believes that it will be successful in its defense of these claims and the ultimate loss, if any, will not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of this litigation.

[b] On February 26, 1996, Iwerks Entertainment Inc. filed a complaint against the Company alleging violations under the Sherman Act, the Clayton Act, tortious interference with contracts and prospective economic advantage, and unfair competition. The plaintiff is seeking unquantified damages, injunctive relief and restitution. The Company has filed an answer denying the material allegations of the complaint and intends to vigorously defend this action. The amount of the loss, if any, cannot be determined at this time.

[c] In July 1997, Debra B. Altman filed a claim against the Company, and certain unidentified individuals, in the Superior Court of the State of California for the County of Los Angeles, alleging breach of contract, breach of implied covenant of good faith and fair dealing, breach of implied-in-fact contract, breach of confidence, constructive fraud, quantum meruit, unjust enrichment and constructive trust with respect to a film project the Plaintiff claims to have pursued with the Company. The Plaintiff is seeking unquantified damages exceeding \$5 million. The Company disputes this claim and has removed it to the U.S. District Court for the Central District of California, Western Division, and intends to vigorously defend this action. The trial is scheduled for July 1998. The amount of the loss, if any, cannot be determined at this time.

In addition to the litigation described above, the Company is currently involved in other litigation which, in the opinion of the Company's management, will not materially affect the Company's financial position or future operating results, although no assurance can be given with respect to the ultimate outcome for any such litigation.

18. Impact of Recently Issued Accounting Standards

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, and Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, will become effective for the Company's 1998 fiscal year and may require additional financial statement disclosures or alternative presentation of existing disclosures.

New accounting standards issued but not effective would not have a material impact on the Company's financial statements.

19. Subsequent Event

On March 5, 1998, Rosalini Film Productions Inc. filed a claim against the Company in the U. S. District Court for the Central District of California, alleging breach of written agreement, breach of implied covenant of good faith and fair dealing, fraud and deceit, negligent misrepresentation, unfair competition, unjust enrichment, quantum meruit, constructive trust and declaratory relief with respect to a film project the Plaintiff claims to have pursued with the Company. The Plaintiff is seeking unquantified damages. The Company disputes this claim and intends to vigorously defend this action. The amount of loss, if any cannot be determined at this time.

Share Listing: TRADING SYMBOL
NASDAQ: IMAXF
TSE: IMX

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BRIAN WEISFELD
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(Analysts)

Auditors
COOPERS & LYBRAND

Annual Meeting Date
JUNE 22, 1998

Directors

BRADLEY J. WECHSLER
Chairman, Co-CEO*

RICHARD L. GELFOND
Vice Chairman, Co-CEO

JOHN M. DAVISON
*Executive Vice President,
Operations and CFO*

I. GRAEME FERGUSON
Director

MICHAEL FUCHS
Director

GARTH M. GIRVAN
Director,† Partner
of McCarthy Tétrault*

MURRAY B. KOFFLER
*Director, Honorary Chairman
Shoppers Drug Mart*

PHILIP C. MOORE
*Director, Partner of
McCarthy Tétrault*

MILES NADAL
Director,† President and CEO
MDC Corporation*

MARC A. UTAY
*Director,† Managing
Director Wasserstein Perella
and Co. Inc.*

* Member of the Audit Committee

† Member of the Compensation Committee

Officers

BRADLEY J. WECHSLER
Chairman, Co-CEO

RICHARD L. GELFOND
Vice Chairman, Co-CEO

JOHN M. DAVISON
*Executive Vice President,
Operations and CFO*

PETER J. CHILIBECK
*Sr. Vice President,
Legal Affairs and
General Counsel*

ANDREW GELLIS
Sr. Vice President, Film

MICHAEL A. GIBBON
Sr. Vice President, Technology

CHRISTIAN JÖRG
*Sr. Vice President, IMAX
Attractions and COO Ridefilm
Corporation*

DAVID KEIGHLEY
*Sr. Vice President and
President, David Keighley
Productions 70MM Inc.*

MICHAEL M. DAVIES
*Vice President and
Corporate Controller*

JENNIFER RAE
Vice President, Affiliate Relations

G. MARY RUBY
*Vice President, Legal Affairs and
Corporate Secretary*

PHILIP C. MOORE
Assistant Secretary

Photography Paul Orenstein
Discovery Channel Pictures
ABC/Kane Productions
Roberta Parkins
MacGillivray Freeman Films
Brian Smale
William Taufic
British Film Institute
Hayes Davidson/Nick Wood
Forum Ride Associates
Caesars Palace
Lockheed Martin Corporation

Design Atlanta Incorporated

Printed in Canada Arthurs Jones Inc.

Everest: A MacGillivray Freeman Film presented by Polartec®

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